

INTEREST RATES: THE EFFECT ON LDCS

I. ISSUE

Other Summit countries argue that a reduction in US interest rates would be the fastest and most effective way to strengthen LDC balance of payments positions, as trade liberalization is a lengthy, difficult process.

II. ESSENTIAL FACTS

The increase in interest rates (LIBOR) from 9% in 1978 to 17% in 1981 together with heavier LDC reliance on private credit were factors in the rising LDC debt-servicing costs and current account deficits from 1978 to 1982. Other factors included: higher oil prices, world recession, weak LDC adjustment, and increased protectionism.

While a one percentage point drop in LIBOR reduces annual non-OPEC LDC gross interest payments by about \$2-1/2 billion, the net savings (after deducting loss of interest receipts) is \$1-1/2 billion. This amounts to only about 1/2% of non-OPEC LDC merchandise imports.

A 1% faster OECD growth rate would earn non-OPEC LDCs roughly \$10 billion more per year.

III. KEY POINTS

Criticism: A cut in US interest rates would help LDCs.

Response: US interest rates cannot be brought down by administrative action. Short-term monetary policy measures such as injecting liquidity would be inappropriate. This would restimulate inflation and force interest rates up. LIBOR interest rates have already fallen from 17% in 1982 to 9% now.

Criticism: Other economic variables are less important than interest rates.

Response: There are substantial benefits to be had from increased OECD growth and trade. In particular, many of the poorer would especially gain from recovery of commodity exports. A relaxation of trade protectionism would benefit the more advanced LDCs.

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INSTITUTIONAL INNOVATION IN TRADE AND FINANCEI. ISSUE

International trade and finance relationships are now very relevant to sustainable growth and stability in the world economy. We need to coordinate trade and finance policy better.

II. ESSENTIAL FACTS

The debt situation, global recession and protectionist trends have brought relationships between macroeconomic/financial policies and trade policies into sharper focus. Better economic performance, growth in world trade and orderly resolution of LDC debt problems require recognition that:

- sustainable non-inflationary growth depends on maintaining and expanding open multilateral trading system;
- ability to service debt is linked to exports;
- availability of financing to support orderly adjustment by LDCs helps them to maintain essential imports. This also assists sustainable recovery in developed countries.

The Trade and Finance Ministers meeting on May 10-11 in Paris endorsed the idea that better coordination of trade and financial policies can be promoted by encouraging meetings between trade and finance officials and closer cooperation between the IMF, GATT and OECD.

III. KEY POINTS

Criticism: The world economic system is beginning to recover. Why should we worry about trade/finance links?

Response: Serious debt problems and a decline in trade require that we focus on critical relationships between debt problems and protectionist pressures in N/S trade. In the short-term, LDCs need adequate external finance to maintain imports essential for orderly adjustment. In the short and longer-term, LDCs must expand exports to developed countries for debt servicing. Thus it is important to preserve market access.

Criticism: Trade/finance meetings and rhetoric about improved cooperation among international institutions waste time which distracts us from the real challenges.

Response: We should encourage trade/finance meetings to maintain and expand open world trade, investment and finance and to promote policy coordination among the IMF, GATT and OECD.

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"EXTRATERRITORIALTY"I. ISSUE

Some Summit participants, particularly the UK, Canada, and France, object to the "extraterritorial" application of US law to persons or conduct in their territories.

II. ESSENTIAL FACTS

Jurisdictional conflicts occur in several areas involving important US interests, including antitrust, export controls and the US embargo against Cuba. The US believes it is proper to regulate certain conduct by foreign subsidiaries of US companies or by persons abroad because their conduct is connected to the US or has substantial effects here. The UK and others say many US actions violate international law, impose US policy on their economies without their consent, and cost them jobs and trade.

The US is determined to avoid "extraterritorial" conflicts when possible. We have recently held bilateral discussions with the UK and Canada (at their initiative) on "extraterritoriality" and are seeking practical ways to reduce jurisdictional conflicts despite differences of principle. The OECD Working Group on International Investment Policies (with US participation) will soon begin to examine the impact of jurisdictional conflicts on international investment climate.

The Administration-proposed amendments to the Export Administration Act, although perhaps not as extensive as our allies would like, indicate the attention now given to this subject (especially on the subject of pre-existing contracts).

III. KEY POINTS

Criticism: The US reaches too far in trying to regulate behavior in foreign countries. It claims jurisdiction over companies that are not US companies and over products that are no longer in US territory.

Response: US controls are essential to important national interests, and are consistent with international law.

Criticism: US "extraterritorial" actions have high economic and political costs. Attempts to control US overseas business activities would cause the US to object.

Response: We recognize that costs can arise from jurisdictional conflicts. For this very reason, we should attempt to avoid such conflicts by seeking common approaches to common problems (as in the area of national security export controls).

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NORTH/SOUTH (N/S) DIALOGUEI. ISSUE

Our Summit partners will press for a forthcoming approach to LDCs and may seek positive language in the joint statement.

II. ESSENTIAL FACTS

Versailles focused on LDC demands for Global Negotiations (GNs) as a means to achieve their goal of a New International Economic Order (NIEO). Summit leaders responded with a proposed basis for GNs which assures the independence of specialized agencies and does not accept NIEO as the sole basis for the discussions. LDCs rejected these proposals, but faced with continued Summit country unity on this issue, they have put GNs on ice until 1984. Moreover, they have moderated their rhetoric somewhat, although its substance remains the same.

Our Summit partners feel more dependent on LDCs for resources and markets than we do. As at Versailles, France, with some support from Canada, Japan and Italy, wants to project a conciliatory attitude towards LDCs, including Summit agreement on some economic concessions at UNCTAD VI. The FRG and UK are closer to our view that we should resist more strongly LDC demands for sweeping economic changes.

A united Summit position on N/S issues, based on restored OECD growth, an open trade and finance system, LDC domestic measures, and specialized agency effectiveness offers the best chance of encouraging realism and moderation among LDCs.

III. KEY POINTS

Criticism: The US is insensitive to LDC problems and this harms Western political, security and economic interests.

Response: We are greatly concerned about LDCs, and recognize our mutual interests in restoring global economic health. But it is essential to LDC growth that they adopt sound, market-oriented policies. We should not perpetuate the illusion that resource transfers will solve their problems.

Criticism: The US is failing to deal with serious LDC economic problems caused by the OECD recession, including high interest rates and sharply reduced demand for LDC exports.

Response: Restoring sustained, non-inflationary OECD growth is the most important thing we can do for LDCs. Our support for increased IMF resources, open trading policies and emergency measures for large debtors demonstrates our ability to take strong, effective measures. The Western-led trade and financial system, including its specialized economic institutions, has a demonstrated record of success and adaptability.

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ECONOMIC PROPOSALS FROM MEETINGS OF THE NON-ALIGNED
MOVEMENT (NAM) AND THE GROUP OF 77 (G-77)

I. ISSUE

Most developing countries and many of our industrialized allies expect the Williamsburg Summit to address the economic proposals adopted at 1983 NAM Summit and G-77 Ministerial.

II. ESSENTIAL FACTS

The NAM economic declaration cites the US, though not by name, as being responsible for the economic distress of developing countries and calls for 39 immediate measures involving substantial resource transfers to LDCs and sweeping changes in the world economic system. These measures include the adoption of stimulative economic policies by the developed countries, proposals to address the balance of payment problems of developing countries, securing of higher prices for commodity exports and reduction protectionist trends and trade barriers. An international conference with universal participation was called for to restructure the international monetary and financial system. The necessity of global negotiations was repeated, but support for them was less prominent than in the past. Finally, all heads of state and government were urged to meet in New York during the UN General Assembly this autumn. The US has made strong demarches criticizing the NAM results as being unbalanced and detrimental to a practical, constructive dialogue between developed and developing countries.

The G-77 met to work out unified LDC positions on issues before UNCTAD VI. The economic proposals adopted are consistent with those of earlier NAM meetings. The G-77 seeks action-oriented results at UNCTAD to begin implementing many of them.

III. KEY POINTS

Criticism: The US is too negative on the results of the recent NAM and G-77 meetings. The tone at both meetings showed a new moderation and pragmatism among the developing countries.

Response: We recognize that there were some positive elements in the results of these meetings but we believe there must be considerable improvements for constructive dialogue to begin. The economic proposals are not strikingly different in rhetoric or substance from previous NAM or G-77 demands for a radical international redistribution of wealth and economic power. In discussions of development issues the US will make the case for sound domestic and international economic policies that have a proven record of effectiveness.

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THE SIXTH UN CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD VI)I. ISSUE

Our allies will want to discuss policy for UNCTAD VI.

II. ESSENTIAL FACTS

With the fading of Global Negotiations (GNs), UNCTAD VI will be the major North/South (N/S) event this year. The conference convenes in Yugoslavia immediately after Williamsburg, and LDCs will expect Summit leaders to address N/S issues.

US objectives at UNCTAD VI are to: 1) project an image of united Western economic leadership and confidence in the ongoing economic recovery; 2) gain wider recognition of the real problems of development and the interests of all countries in sustaining and improving world trading and financial systems; 3) avoid outcomes that are economically unsound, financially costly or impinge on other institutions' competence; 4) encourage UNCTAD activity in more constructive channels and gain a more evenhanded representation of Western views within the UNCTAD Secretariat; and 5) further diminish LDC pressures for GNs.

We basically agree on most UNCTAD issues, but differ somewhat on commodities and services. Some allies (France) are more apt to respond to LDC demands. The FRG, as EC spokesman, will be pressed by its colleagues to accept conciliatory positions.

III. KEY POINTS

Criticism: The US approach to UNCTAD VI is not sufficiently responsive to LDC concerns and risks N/S discord.

Response: If the Summit countries project an image of united Western economic leadership and confidence in economic recovery, and emphasize the benefits of open trade and finance, it will foster confidence and realism among LDCs. We need to encourage a focus on the real problems of development, including the essential need for sound domestic policies and the avoidance of outcomes that are economically unsound. By maintaining a united position, we can reach our objectives and avoid a N/S confrontation, as we have been able to do on GNs.

Criticism: We need to make some minor economic concessions at UNCTAD VI to encourage their recent moderating trend.

Response: We can best encourage moderation by citing recent economic events (US recovery, declining interest and inflation rates, IMF quota increase, overall approach to debt/liquidity problems). Concessions on economically unsound proposals will only encourage continued radical demands by LDCs.

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MITTERRAND'S POSSIBLE INITIATIVE ON AFRICA

I. ISSUE

Mitterrand may propose that Summit leaders offer new help to ease the deep economic crisis that engulfs most of Africa.

II. ESSENTIAL FACTS

In his remarks to the OECD ministers May 8, Mitterrand said Africa could become the "Lost Continent of Development", unless dramatic action were taken.

The crisis is real. Growth is stalled, per capita food production is falling and financial difficulties limit increases in food imports.

The crux of the problem is inadequate incentives for farmers and poor economic policies, particularly controlled prices and overvalued exchange rates. New aid and agricultural investment will not help while policy reform is absent. Some African leaders seem to recognize that current approaches are failing.

We have considered the possibility of major donors coordinating their aid in order to encourage necessary policy reforms. US input could be PL-480 Title III and development assistance.

If it helps gain French support for US Summit objectives, we could agree to consider with other Summit countries a coordinated effort to encourage new policies for growth in Africa.

III. KEY POINTS

-- Mitterrand has identified a crisis that could make Africa a continent of turmoil.

-- Increased aid will not help unless there is policy reform, particularly those stifling agricultural development.

-- Summit countries ought consider a way to coordinate part of their aid so as to reward real reforms, thus encouraging others. The World Bank, working with the Africans, might propose the specific reforms and advise the donor group.

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ACID RAINI. ISSUE

Many allies are concerned about acid rain, believed to be caused by sulfur dioxide, and its effects on lakes and forests.

II. ESSENTIAL FACTS

The US and Canada stated their intention to develop an agreement on transboundary air pollution (acid rain) in 1980. You have confirmed our desire to work with Canada to understand the problem and find a solution, but noted this would take time. Negotiations began in June 1981. Canada proposes the two countries reduce sulfur dioxide (SO₂) emissions 50% by 1990 to protect threatened resources. The US believes greater scientific understanding and assurance of the effectiveness of the controls are needed before such decisions could be made, particularly as new controls would be costly for the US--\$4-7 billion annually--and would have serious impact in high unemployment areas. US and Canadian scientists have developed considerable understanding of acid rain in joint reports, but there are serious gaps in knowledge and disagreement on how to proceed. Peer reviews of the reports are expected to be finished in each country in June.

We are party to the Economic Commission for Europe (ECE) Convention on Long-range Transboundary Air Pollution. Nordic countries have been assertive of the need for lower SO₂ emissions. Early in 1983, they proposed to ECE countries a 30% reduction over ten years. The FRG is enacting new rules to cut SO₂ emissions one-third by 1993, at a cost of \$2-5 billion. Canada sees the Nordic and FRG initiatives as supportive of its case. We can accept a call in the final statement for increased cooperation on environmental problems, including acid rain.

III. KEY POINTS

Criticism: US has not done enough to control acid rain.

Response: We are concerned about the effects of acid rain and are committed to working with Canada and the ECE to solve the problem. Existing US controls have reduced air pollution significantly. It is premature to begin costly new controls given uncertainty about steps to take and their efficacy. We soon expect a firmer basis for considering new controls based on expanded research to be funded in FY84 at about \$28 million.

In April Secretary Shultz and Canadian Foreign Minister MacEachen agreed on steps to expand common understanding of the acid rain problem in order to move the discussions ahead. The US will expound on the Canadian paper on abatement options. The chairmen of the two peer review panels will advise the Secretary and MacEachen on the issue. EPA Administrator Ruckelshaus and Environment Minister Roberts will take part in the next ministerial meeting.

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JAPANESE PROPOSAL ON CANCER RESEARCH

I. ISSUE

Whether the US should agree to a Japanese proposal to expand international cooperation in the area of cancer research.

II. ESSENTIAL FACTS

In March, Prime Minister Nakasone directed that a 10-year Cancer Control Program be developed. He said that the program would have an international dimension.

Nakasone may make an appeal during the Summit for major countries to cooperate and make their best efforts to solve this problem. Japan recognizes that the ultimate success of any program would be greatly enhanced by US participation.

The proposal for US cooperation (which has been raised with Secretary Heckler personally) would be to invite US scientists to work in Japan. Japan would pay all expenses.

We should be receptive to the Japanese proposal. The National Institutes of Health (NIH) believes that the Japanese effort in biomedical research areas is comparable to ours. The US pays all expenses (about \$2.8 billion in 1982) for the 200 Japanese scientists currently at NIH. No US scientists are known to be working in Japanese labs. Accepting the Japanese proposal would partially correct this imbalance.

III. KEY POINTS

Cancer control is a world problem. I am pleased that Japan plans to expand its own efforts and encourage others to do likewise.

IF NAKASONE MENTIONS THE PROPOSAL TO INVITE US RESEARCHERS TO WORK IN JAPAN:

I especially welcome the proposal to provide opportunities for US researchers to work in Japan. I know that many Japanese researchers have been working at our National Institutes of Health, and am interested in following the progress you are making in Japan.

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LIMITING ENERGY DEPENDENCE

I. ISSUE

We seek to limit future purchases of Soviet gas, accelerate development of OECD energy sources on an economic basis, and limit vulnerability of OECD to supply interruptions.

II. ESSENTIAL FACTS

The OECD/IEA Energy Requirements Study, although one of the series of East-West studies initiated last fall, is global in scope as it covers all sources and forms of energy. A key finding of the study confirmed US analysis that projected gas supplies are likely to fall short of European demands in the 1990s, and the gap can be met by Norwegian or Soviet supplies.

In drawing policy conclusions to the study, IEA Energy Ministers agreed to avoid undue dependence on any one source of gas imports and to ensure that no one producer can use monopoly power. Specific attention was drawn to the Norwegian Troll gas field and the need for improved security measures. Countries agreed to notify each other of potential changes in gas supply patterns and to review regularly in depth gas security issues.

In reducing reliance on oil, we should avoid overdependence on single sources for gas. Left alone, the USSR could win the lion's share of the market for new gas supplies to Europe in the 1990s. If we can limit our countries' gas dependence to prudent levels, it will help to ensure development of important indigenous resources, such as the Troll gas field in Norway. Policy Conclusions to the IEA/OECD Energy Requirements Study recognize our common interest in gas supply security and the need for close, continuing cooperation in this area.

III. KEY POINTS

Criticism: Restricting Soviet gas sales would give the Norwegians undue advantage in commercial gas negotiations.

Response: Oil and coal compete effectively with new Norwegian gas and are likely to be priced lower on a btu basis.

Criticism: It is better to use Soviet gas now and reserve indigenous supplies for emergency needs.

Response: Development of gas infrastructure is a long-term effort. Without the prospect of a sizable market, no one will invest in development of OECD-area gas. Thus, in a crunch, indigenous supplies would not be there.

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NATO ROLE IN EAST-WEST ECONOMIC RELATIONS

I. ISSUE

The role of the NATO Study on East-West Economic Relations in attaining key US East-West objectives.

II. ESSENTIAL FACTS

The final conclusions of the NATO study on the security implications of East-West economic relations will not be available to the Summit governments prior to the Williamsburg meeting since the study will have to be considered by the NATO ministers at their June 9-10 meeting. However, the Summit participants will be aware of the Economic Committee's work.

On May 18, the North Atlantic Council reviewed and approved transmittal of the study to the Ministers. Our primary objective for the Ministerial Meeting is to have the NATO ministers endorse conclusions in line with the principles stated in the "Summary of Conclusions."

France is opposed to any formalization of a collective, comprehensive doctrine of East-West economic relations and will likely oppose any joint statement that is not confined to security-related economic issues. Japan, which has been only informally associated with the NATO study, opposes using the study as a "predetermined basis for discussion" at the Williamsburg Summit.

At Williamsburg it would be appropriate to refer to the importance of the work underway in NATO, but specific discussion of possible conclusions should be deferred to the NATO Ministerial Session.

III. KEY POINTS

-- We attach great importance to the study which NATO is carrying out on the security implications of East-West economic relations.

-- Expect that the NATO ministers at the June NATO Ministerial will draw appropriate policy conclusion from the study and the subsequent discussion in the North Atlantic Council.

-- We expect that NATO will be involved in follow-up work on the security implications of East-West economic relations.

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COCOM: COVERAGE AND STRENGTHENING

I. ISSUE

Endorsement of the agreed conclusions of the April COCOM High Level Meeting (HLM) at the Summit could add increased momentum to USG efforts to strengthen multilateral controls on strategic items, to encourage increased enforcement activities by member governments, and to upgrade the COCOM Secretariat.

II. ESSENTIAL FACTS

The USG had called for a COCOM HLM to maintain and foster political-level support in other governments for key US proposals in the ongoing COCOM List Review and for US initiatives for strengthening national licensing practices, and for significantly upgrading the COCOM Secretariat. In its Summary of Conclusions, the HLM endorsed in general terms all of the US proposals except one calling for the establishment of a new Subcommittee of Defense Experts. Other members preferred extending COCOM meetings to include defense experts.

III. KEY POINTS

US Statement: Our governments made good progress at the April COCOM HLM. We need to follow up on the agreements made there. Specifically, we should:

-- Rapidly conclude our efforts to strengthen embargo coverage in priority technological areas such as computers and robotics;

-- Commit on an urgent basis financial resources for upgrading the COCOM Secretariat;

-- Devote high-level attention to assuring success of the Export Control Subcommittee's efforts to deal with enforcement and licensing harmonization problems, including the illegal reexport of COCOM-controlled items from third countries.

We also hope that your government can support the US proposal for a special Subcommittee of Defense Experts.

Criticism: Defense experts are already involved in governmental decisions on export control issues. Extended meetings involving defense experts should provide adequate opportunity for defense/military assessments sought by the USG.

Response: Such experts are not routinely involved in export control matters in several COCOM countries. We need to share military expertise on COCOM matters on a continuous basis.

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OIL AND GAS EQUIPMENT AND TECHNOLOGY

I. ISSUE

We need to impress the Summit countries of the importance we attach to the conclusions of the April 28-29 COCOM High Level Meeting (HLM) on the study of other high technology.

II. ESSENTIAL FACTS

As a result of a US initiative, a COCOM ad hoc group has met twice to review US proposals for controlling oil and gas equipment and technology and for a system for monitoring emerging technologies. A third meeting has been scheduled for July, the first date permitted by the ongoing COCOM List Review schedule. A progress report on the ad hoc group activities was submitted to the HLM, which agreed to continue the study on oil and gas equipment and technology.

At the Summit, our objectives are to stress the continuing importance we attach to (1) the study as to whether our security interests require new controls on certain other high technology items (including oil and gas equipment and technology) not now controlled by COCOM, and (2) an early (July) agreement to establish a watch list for monitoring emerging technologies (only France has reserved on this).

III. KEY POINTS

Criticism: In proposing controls on oil and gas equipment and technology, the USG appears to be attempting to make use of COCOM controls as a means of imposing economic sanctions on the USSR. Under COCOM criteria, direct and significant military relevance must be shown for instituting controls. This is possible only for a limited number of oil and gas items.

Response: Oil and gas equipment has been previously controlled by COCOM in the 1950s under strategic criteria similar to those which currently exist. We believe that our governments should seriously consider whether our overall security interests again warrant controls on certain key types of oil and gas equipment and technology.

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OECD MONITORING: COUNTERTRADE AND CREDITSI. ISSUE

Within our overall East-West strategy, we will want the Summit participants to endorse the results of the discussions of East-West economic relations at the OECD Ministerial meeting.

II. ESSENTIAL FACTS

At the May Ministerial, OECD countries reached agreements on East-West matters that satisfied US objectives for this exercise. The communique contains the following major points:

- (1) East-West economic relations have not developed as had been well as expected;
- (2) such relations "should be guided by the indications of the market" and "Governments should exercise financial prudence without granting preferential treatment";
- (3) the OECD should continue to review developments in this area, particularly problems connected with the Eastern countries' use of centralized control over trade (e.g., insistence on "countertrade", acceptance of goods in payment for exports).

The Ministers also approved a work program for the OECD on East-West matters which will include efforts to improve data collection and analysis, review financial and credit relationships, and study the balance of advantages.

III. KEY POINTS

Criticism: The US has been trying to force its own views concerning East-West economic and political relations on other governments.

Response: We want to develop a common analysis and agreed principles to enhance our governments' ability to formulate policies in this area, both individually and collectively. The work that has been done so far is a step in that direction. We look forward to building upon its results in implementing the work program approved at the Ministerial.

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EXPORT CREDIT ARRANGEMENT

I. ISSUE

The April negotiations to extend the OECD Arrangement on Export Credits yielded consensus on principles but no final agreement because the EC and other countries were unable to take final positions on a number of complex issues. We and our Summit partners will need to make a political commitment to see the negotiations to a successful conclusion.

II. ESSENTIAL FACTS

A significant result in April was the willingness of the EC and others to go on record in favor of automatic adjustment of Arrangement interest rates to reflect changes in market rates. Nevertheless, several countries had reservations which delayed agreement. France wants interest rates for the major LDCs lowered. Italy, Greece, and Belgium are resisting US proposals for tighter financing terms for the Category I (rich) countries, including the USSR. Japan wants the premium on yen loans reduced. As a result, the present Arrangement guidelines were extended and technical work is under way leading toward further negotiations June 27-30. This extension keeps lending rates to the USSR at or above market rates in most currencies.

III. KEY POINTS

Criticism: It is wrong to single out Category I countries for tough treatment.

Response: These countries can get commercial trade finance. They do not need subsidies by other governments.

Criticism: It is premature to set up an automatic system.

Response: All major participants have agreed to this in principle. Such a system would minimize destructive credit competition and reduce budgetary drains on all of us.

Criticism: Minimum Arrangement interest rates should be lowered.

Response: Technical work is under way to determine what the proper rates will be. The objective should be no unfair advantage for anyone. We have a unique opportunity in these negotiations to advance our budgetary and trade goals. It will never be easier than now.

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